

Message Text

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SUBJECT: ROK PURSUES MIDDLE EAST CONSTRUCTION CONTRACTS

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SUMMARY: IRAQ, SAUDI ARABIA, AND IRAN APPEAR TO ROK MOST PROMISING AREAS FOR FURTHER RAPID EARLY EXPANSION OF KOREAN OVERSEAS CONSTRUCTION INDUSTRY. MANY PROJECTS IN WHICH ROK SEEKS PARTICIPATE WOULD, AS IN PAST, INVOLVE SUBCONTRACTS FROM U.S. PRIME CONTRACTORS FOR RELATIVELY UNSOPHISTICATED AND LABOR-INTENSIVE WORK SUCH AS ROADS, PORTS, AND HOUSING. END SUMMARY.

1. ROKG IS CONSIDERING RAISING TARGET FOR 1975 OVERSEAS CONSTRUCTION CONTRACTS FROM \$500 MILLION TO \$800 MILLION

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OR \$1 BILLION, WITH \$10 BILLION OPTIMISTICALLY FORESEEN FOR 1980 BY MINISTER OF CONSTRUCTION. OVERSEAS CONSTRUCTION IS FASTEST GROWING ROK FOREIGN EXCHANGE EARNING SECTOR WITH \$534 MILLION IN 1975 CONTRACTS SIGNED OR NEARLY CONCLUDED

THROUGH MID-JULY COMPARED TO \$260 MILLION SIGNED FOR ALL OF 1974. MIDDLE EAST IS FASTEST GROWING ROK CONSTRUCTION MARKET ACCOUNTING FOR ABOUT 90 PERCENT OF OVERSEAS CONTRACTS WON SO FAR IN 1975. ROKG THIS YEAR HAS ORGANIZED \$100 MILLION FOREIGN EXCHANGE FUND SUBSCRIBED BY KOREAN BANKS TO HELP FINANCE OVERSEAS CONSTRUCTION, HAS MOBILIZED DIPLOMATIC EFFORTS TO SUPPORT KOREAN CONSTRUCTION FIRMS, AND HAS SUPPORTED ESTABLISHMENT OF KOREAN OVERSEAS CONSTRUCTION CORPORATION (KOCC), A CONSORTIUM OF 25 LARGEST KOREAN FIRMS IN THE BUSINESS (REF C). ALTHOUGH ROK NOW RANKS ONLY ABOUT TENTH OR LOWER IN MIDDLE EAST CONSTRUCTION WORK, IT HOPES TO GROW TO NUMBER THREE, AFTER U.S. AND ITALY, IN A FEW YEARS. IT BELIEVES IT CAN EVENTUALLY CAPTURE BULK OF LOW AND MIDDLE TECHNOLOGY WORK BECAUSE OF A) ABILITY SUPPLY HARD-WORKING LOW-COST SEMI-SKILLED LABOR AND B) ORGANIZATIONAL EFFICIENCY BASED ON EXPERIENCE GAINED PRIMARILY FROM CONSTRUCTION WORK FOR USG IN VIETNAM. JAPAN IS GIVING UP IN LOWER TECHNOLOGY CONSTRUCTION WORK IN MIDDLE EAST, KOREANS BELIEVE, AND U.S. FIRMS APPEAR TO BE INTERESTED IN SUBCONTRACTING ELSEWHERE UNSOPHISTICATED PARTS OF THE LARGE PROJECTS THEY ARE WINNING IN THE MIDDLE EAST. FOR EXAMPLE, KOCC HAS RECENTLY CONCLUDED IN SEOUL AN AGREEMENT WITH U.S. TECHNICAL SERVICE FIRM LOUIS BERGER CO. CONCERNING MIDDLE EAST ACTIVITIES.

2. FOLLOWING RUNDOWN OF PROJECTS CURRENTLY SOUGHT BY KOREANS WAS SUPPLIED EMBASSY BY KOCC OFFICIAL WHO RECENTLY RETURNED FROM VISIT TO MIDDLE EAST. MOST OF SPECIFICS ARE PRIVILEGED COMMERCIAL INFORMATION AND SHOULD BE PROTECTED ACCORDINGLY.

A. IRAQ. MOST PROMISING EARLY NEW OPPORTUNITY FOR KOREA IN MIDDLE EAST IS POSSIBLE \$200 MILLION CIVIL ENGINEERING SUBCONTRACT FROM LUMMUS (U.S.) FOR MAJOR INDUSTRIAL PETROCHEMICAL COMPLEX TO BE CONSTRUCTED NEAR BASRA, PROVIDED LUMMUS WINS MASTER CONTRACT OVER FRENCH COMPETITION. ROK LIMITED OFFICIAL USE
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CHANCES OF GETTING SEPARATE \$18 MILLION CONTRACT FOR WATER PIPELINE NEAR BASRA CONSIDERED GOOD. IRAQI NONRECOGNITION OF ROK NOT EXPECTED TO PRECLUDE ACTIVITIES BY PRIVATE ROK CONSTRUCTION FIRMS.

B. SAUDI ARABIA. SUBCONTRACTING FOR YAMBO PORT COMPLEX (VALUE OF TOTAL COMPLEX \$300 MILLION TO POSSIBLE EVENTUAL \$3 BILLION) MAY BE POSSIBLE. PARSONS (U.S.) IS INTERESTED IN RECRUITING 8,000 SOUTH KOREAN WELDERS FOR WORK IN SAUDI ARABIA, BUT ROK WILL TRY OBTAIN TIE-IN WITH CONSTRUCTION SUBCONTRACTS. AT DHAHRAN ROK HOPES GET FLUOR (U.S.) SUBCONTRACTS FOR CIVIL ENGINEERING FOR \$4 BILLION ARAMCO PETRO-

CHEMICAL COMPLEX WHICH MIGHT REQUIRE 225,000 (SIC) SOUTH KOREAN WORKERS. SUBCONTRACTS FROM KAISER (U.S.) FOR CIVIL ENGINEERING WORK FOR \$200 MILLION SAUDI DESALINATION PLANT AS WELL AS ELECTRIC POWER PLANTS ARE POSSIBILITIES. ROK ALSO HOPES DO WORK, PARTICULARLY HOUSING CONSTRUCTION, FOR SAUDI NAVAL EXPANSION PROGRAM (SNEP) AND HAS MADE CONTACT WITH U.S. ARMY CORPS OF ENGINEERS IN WASHINGTON AND PISA (ITALY) AS WELL AS IN SAUDI ARABIA. SAUDIS ARE INTERESTED IN HAVING ROK FIRMS BUILD MOSQUES IN VARIOUS SCATTERED LOCATIONS, BUT KOREANS WOULD BE INTERESTED ONLY IF MOSQUES TIED IN WITH SCHOOL AND HOUSING PROJECTS TO MAKE PROJECTS LARGE ENOUGH TO BE VIABLE. KOREAN FIRMS HAVE NOT YET GOTTEN A GOOD FIX ON ALLEGEDLY POWERFUL SAUDI MIDDLEMEN-BROKERS OR THEIR EFFECTIVENESS BUT ARE IN CONTACT WITH GUEDRIGA, AND PRINCE NAWEF (LATTER VISITED KOREA IN MAY). (CONTRACTS WORTH \$120 MILLION ALREADY WON BY KOREA'S SAMWHAN CORP. PRIMARILY FOR HIGHWAY CONSTRUCTION AND CITY BEAUTIFICATION; ACCORDING TO KOREAN PRESS SAMWHAN ALSO WON BID IN JUNE FOR \$18 MILLION NAVAL BASE EXPANSION PROJECT). ROK FIRMS HOPE CO-OPERATE CLOSELY WITH FIRST NATIONAL CITY BANK OF U.S. IN SAUDI ARABIA. KOCC PLANS ESTABLISH OFFICE IN RIYADH.

C. IRAN. SHAH HAS APPROVED CONSTRUCTION OF A \$250 MILLION URBAN COMPLEX 12 MILES SOUTH OF TEHRAN SPONSORED BY PAHLEVI FOUNDATION, AND KOREA HOPES OBTAIN PART MK THIS WORK. KOREA ALSO EXPECTS WIN SEPARATE \$45 MILLION TURNKEY CONTRACT FOR HOTEL. OTHER PROSPECTS ARE PIPELINE SUBCONTRACT FROM BROWN AND ROOT (U.S.), CONTRACTS FROM NATIONAL IRANIAN OIL COMPANY (NIOC), AND SUBCONTRACTS FROM LIMITED OFFICIAL USE
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BECHTEL (U.S.). SOUTH KOREAN PERFORMANCE SO FAR ON \$32 MILLION CONTRACT TO CONSTRUCT PORT AT KHORAMSHAR HAS BEEN HELPFUL DEMONSTRATION OF CAPABILITIES. ANOTHER IRANIAN CONTRACT REPORTEDLY ALREADY WON BY KOREANS IS AN \$81 MILLION SHIPYARD PROJECT. KOCC PLANS ESTABLISH PERMANENT OFFICE IN TEHRAN.

D. KUWAIT. JETTY CONSTRUCTION IS THE MOST INTERESTING POSSIBILITY.

E. LIBYA. KOREAN FIRMS WILL NOT ATTEMPT BREAK INTO LIBYAN CONSTRUCTION MARKET SINCE SOUNDINGS IN THIRD COUNTRIES WERE DISCOURAGING.
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